

**State Employee Benefits Committee
March 13, 2009, 1:00 p.m.
Tatnall Building, Room 112
Dover, Delaware**

The State Employee Benefits Committee met on March 13, 2009 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, OMB, Director,
Statewide Benefits
Faith Rentz, OMB, Statewide Benefits
Ann Skeans, OMB, Statewide Benefits
Mary Thuresson, OMB, Statewide Benefits
Casey Oravez, OMB
Kim Wells, OMB
Theresa Strawder, OMB, Wellness
Karen Weldin Stewart, Commissioner, DOI
Julian Woodall, Controller, DOI
Andrew Kerber, Department of Justice
Terry Mullaney, OMB, PHRST
Tina Hession, OMB, PHRST
Dave Craik, Office of Pensions
Kim Vincent, Office of Pensions
Velda Jones-Potter, State Treasurer
Barbara Bennett, State Treasurer's Office
Gary Pfeiffer, Secretary of Finance
Russ Larson, Controller General
Lori Christiansen, Office of the Controller
General
Crystal Webb, DHSS
Ed Tos, SEBAC Chair/DOL
Christine Long, SEBAC/ DHSS
Thomas Chapman, SEBAC/DSEA
Debbie Scanlon, DOE
Judy Anderson, DSEA

Tim Barchak, DSEA
James Harrison, DSEA, Retired
Earlene Gillan-Smith, DSEA, Retired
Rich Phillip, DSEA, Retired
Mike Morfe, AON
Donna Mitchell, City of Dover
Kim Hawkins, City of Dover
Rhonda Walker, City of Dover
Mary Pat Urbanik, U of D
Lionel Gilibert, U of D
Judy Grant, HMS
Andrew Brancati, BCBSD
Mike North, Aetna
Katherine Impellizzeri, Aetna
Robert Enright, DNREC
Jamie Rutherford, DNREC
Sunshine McBride, AFSCME
Vincent McCann, AFSCME
Sandy Richards, AFSCME
Shelly Forcier, DSWA
Carolyn Robinson, DSWA
Karol Powers-Case, DRSPA
Joyce Lindsay, DRSPA
Dr. Hugh Ferguson, DRSPA
James B. Testerman, SPAC
Brian P. Douthy, DE State FOP
Laurence Talley, DSTA

Agenda Items Discussed:

Introductions/Sign In

Ms. Visalli called the meeting to order at 1:05 p.m. Introductions followed. Attendees were asked to sign the attendance sheet and for anyone interested in making comments to the SEBC to sign the Public Comment sheet.

Approval of Minutes

Ms. Visalli asked for a motion to approve the February 23, 2009 SEBC minutes. Mr. Larson made the motion to approve the minutes and Ms. Jones-Potter seconded the motion. The minutes were approved with unanimous voice vote.

Director's Report

Ms. Lakeman gave an update on the Economic Stimulus Package, noting that next week there should be more information on the COBRA Subsidy. There are changes to the HIPAA Privacy and Security Rules that will require adjustments to our business associate agreements. On April 1 our COBRA vendor will change from ADP to Ceridian. We are experiencing about 25 additions per week of spouses who are either new enrollments on our coverage or being updated from primary to secondary due to loss of their own coverage.

Ms. Visalli changed the order of items on the Agenda.

Fund and Equity Report – Casey Oravez (handout)

An overview of the February Fund and Equity Report was presented, stating there is a \$27M balance. There was a slight decrease from January due to no payment of Medicare Part D subsidy and claims were a little higher in February.

FY2010 Renewal Discussion – Faith Rentz (handout)

Ms. Visalli thanked all committee members for their suggestions and recognized SEBAC, Ms. Lakeman and Ms. Rentz for all their work. Compared to where the process started, there is a better balance and compromise. Ms. Visalli advised that DEFAC met this morning and state revenues are projected to be down another \$200M over the course of two years which means there is still work to be done for FY09. The numbers in the upcoming presentation were created before the DEFAC numbers came out this morning which makes things more challenging. Insurance Commissioner Stewart made some comments with great ideas and has volunteered to help us look strategically at how we can better provide benefits to employees without being over burdensome. Research is needed to strategically look at long term planning to avoid unintended consequences on any one group. In the short term we have to get through this financial situation and we don't want to cut benefits. Ms. Visalli stated she would not call for a vote today which will allow time to look it over and think about it before the vote is needed on the 30th. Secretary Pfeiffer said DEFAC has to forecast three more times and these may be the best numbers we will see. Ms. Visalli stated the proposal has attempted to lessen the burden on employees. As new people move into the fund it becomes challenging to predict the expenses.

SEBC Group Health Program FY10 Planning – Faith Rentz (handout)

- Objectives for Today's discussion
 - Review February 23rd Proposal
 - Present Alternatives
 - Discuss Proposal and Alternatives
 - Discuss vote on FY2010 Group Health Plan Package
 - The vote will be delayed until the end of the month

- Fund Group Health Shortfall in FY2010
 - Suggested use of \$20M of surplus instead of \$15M as previously proposed
- Group Health Fund surplus
 - Balance in Health Fund After:
 - All expenses and obligations are met
 - Adequate reserve is deducted
 - Sources of Fund Surplus:
 - Better than projected fund experience – expenditures were less than anticipated
 - Medicare Part D Subsidy Reimbursements
 - Manufacturer Prescription Rebates higher than Contract Guarantees
 - Interest Income
 - March 2008 and SEBC Approved an 8% increase in the State/Employer Share and Use of \$40M health Fund Surplus to fund the FY 2009 increase
 - Maximum Available Surplus to fund FY 2010 Increase: (based on February 2009 Fund & Equity & Performance YTD) **\$20.0M**
- February 23rd Employee Contribution Proposal
 - Proposed Savings: **\$15.7M**
- March 13th Employee Contribution Proposal – 50% across the board
 - Proposed Savings: **\$15.1M**

It was noted that health benefits are pre-tax which saves employee money. Mr. Larson asked for examples of current employee cost share and Ms. Lakeman and Ms. Rentz gave examples. There could be massive movement between plans which would impact the fund. Mr. Larson also asked about rates and was told these will be presented at the next SEBC meeting. Mr. Pfeiffer stressed that movement between plans could put the plan at risk and asked about using the surplus. Ms. Rentz stressed they need to be careful how much they draw down the surplus to avoid taking it to zero.

- Local City Government Health Plan Costs – City of Dover employee rates
- Local County government Health Plan Costs – Kent County employee rates
- Employee Contribution to Balance Remaining shortfall
 - Shortfall: **\$25.1M**
 - Less Employee Contribution Change: **(\$15.1M)**
 - Balance Remaining: **\$10.0M**
 - Plan Changes:
 - Prescription Plan Modifications
 - Additional Considerations
- Prescription Plan Changes
 - Eliminate Smart Start 30 Before 90 Day Program
 - Will impose 90 day mandatory fills on Maintenance Medications
 - Results in Savings to member and Group Health Program
 - Penalty Charge of 90 Day Co-Pay for Fills Less Than 90 Days
 - Estimated Annual Savings of \$2.1M
 - Savings from Contract Renegotiation
 - FY2010 Savings of \$4.5M
 - **Total Savings: \$6.6M**

- Additional Group Health Program Considerations
 - \$2.5M in allocated funding to continue StayWell contract and DelaWell program for two additional years
 - Recommend maintaining program
 - Decreased trend may be attributable to wellness initiatives
 - Ability to structure tiered premiums based on participation/engagement requires continuation of program
 - \$720,000 in funding to continue Second Opinion Program through FY2010
 - Recommend suspending program at the present time
 - Reevaluate need in the future
 - Transfer of Medicare Part D Subsidy to OPEB
 - Reduce transfer of Medicare Part D subsidy by \$2.7M if necessary
- Proposal to Balance FY2010 Group Health Fund
 - **Shortfall:** **\$59.8M**
 - Governor's Recommended Budget (\$14.7M)
 - Group Health Fund Surplus (\$20.0M)
 - Employee Contribution Change: (\$15.1M)
 - Plan Changes:
 - Prescription Plan Modifications (\$6.6M)
 - Suspension of Second Opinion (\$0.7M)
 - Medicare Part D subsidy (\$2.7M)
 - Balance Remaining: \$0**
- March 30th SEBC – Strategic Planning
 - Agenda of Legislative Initiatives
 - Elimination of Double State Share
 - Assessment of percent of salary for employee health care premium
 - Reduction in Dependent Coverage
 - Reduction in State Share coverage for Medicare Supplement plan to less than 100%
 - Ability to apply different rating structure/State Share for active employees and non-Medicare eligible retirees
 - Elimination of “free” plan
 - Consider change in structure of State Share for new hires and retirees after certain date
- Fund Reserve Agreement
- OPEB Funding Strategy

Mr. Larson questioned authority to authorize monies for OPEB. Ms. Rentz noted that Budget Epilogue gives the SEBC the authority to transfer OPEB subsidy monies. Secretary Pfeiffer stressed the amount of money in the state's OPEB account affects their AAA bond rating. A modest amount of payroll goes toward OPEB, but it is not figured in the health care rates, nor is it close to meeting the amount needed. There was a one-time transfer of surplus monies at the end of FY07 from the health reserve and not from health rates. There is a gap of more than \$300M per year. Transferring \$8-10M is a good idea but only a fraction of what is needed.

SEBAC Comment

Mr. Tos said state employees understand the budget realities. Benefits are important to state employees and they earn them with hard work and dedication. The SEBAC recommends that state

employee contributions funding the shortfall be limited to a fifty percent premium increase across all plans. SEBAC recommends that the balance of the shortfall be funded without reducing the benefits by several cost savings measures, including: implementing 90 day refills on prescriptions; contract renegotiations; Medicare Part D subsidy; savings from second opinion and wellness programs; and using more of the surplus. The SEBAC could not have had engaged in the conversation that led to this recommendation without help from the Benefit's Office employees and the SEBAC thanked them.

Public Comment

Dr. Ferguson spoke on behalf of the Delaware Retired School Personnel Association (2,000 members). He gave an overview of the retirees' situation, stating they put a lot of money in and they spend most of their money in Delaware. Examples were given of average pensioners income, expenses and the fact many have lost huge sums (43%) of their savings during the recent economic downturn. The older retirees have little chance of recouping their losses and are frightened. There have been no cost of living increases for two years and it looks bleak for the future. They are worried Delaware might be going backwards. Costs of living are up and they continue to contribute to local groups. The \$250 deductible to the special Medicfill Plan is difficult for them to handle and should be eliminated. He explained numerous problems associated with the proposed 90 day mandatory refills. It was suggested that incoming federal funds be used for some of these items and that the Rainy Day Fund be used for health care. Co-pays for retirees are tough and 90 day prescriptions don't make sense in some cases. It was suggested the SEBC address health care and find alternative funding, not just cut costs.

Mr. Testerman represented the State Pension Advisory Council. Their objective this year is to prevent erosion to medical benefits. They would like to see funding come from somewhere else, the General Fund or somewhere. They are concerned because Medicfill has been dropped. Costs of medications are going up which is a great concern. The years between retirement and when Medicare kicks in are costly and there is inflation. There will be more state pensioners who are destitute for a longer time. There are already problems with the 90 day fill with some pharmacies that will not do it. Ms. Visalli agreed to have this looked into. Requirements to use over the counter drugs instead of prescription strength drugs are a problem in some cases. Bean counters should not be making medical decision that should be made by the family doctor. Double State Share should not be done away with. Double State Share was enacted to support families. Two state pay employees need it as much as ever because their pay is not as good as the private sector. After years of it being cheaper than two policies, this year the cost is the same. We're convinced they are manipulating the fees.

Mr. Barchak represented DSEA (11,000 employees) and thanked the SEBC for delaying the vote on plan changes. DSEA, AFSCME and Delaware State Troopers Association have engaged an actuarial consultant to help them understand the conditions of the plan and methodology. They hope the report from this nationally recognized firm will give everyone good information and ideas. It was agreed the proposal is moving in the right direction; less premium increase and less burden on retired members. They must stop short of endorsing this plan. As advocates they owe their members the time to run every possible scenario and cannot do that without the actuarial studies. DSEA wants to be clear and honest. They do not believe the actuary can be finished by March 30th. If the actuary reveals additional preferable alternatives, the information will be brought to the appropriate parties, SEBC, SEBAC and legislature. Ask that you recognize their

efforts for what they are, not as urgencies, but as advocacies. They hope their efforts result in better informed stake holders and a stronger health plan for the employee.

Mr. Harrison, retired teacher of 32 years, spoke in behalf of DSEA retired, ASFCME retired, ARDSP and DSFOP (over 7,000 members), and feels he is speaking for the 24,00 retirees and 45,000 active state employees. They understand the state's downturns and ask for serious consideration of their points before final decisions are made on health benefits. Three scenarios were given. A WW II veteran who retired from the state in 1982 and now receives \$200 a month pension. He and his wife live on less than \$1,000 a month, including social security benefits. There are a lot of pensioners in this situation. Another couple, both state employees, was told they may face furloughs. Tax increases may be coming, now health care costs are going up. That's a triple/quadruple wham for them. Consider a Sussex County teacher who retired before equalization legislation, to raise salaries to a livable wage. That person will make his decision about health care based on these new costs. Some retirees will have to choose between eating, medications or paying utility bills. In the end it may cost the health care system more in the long run. Recently retirees are worried. What does our future bring? The money must come from the budget we make. The budget cutting we will have to do, like the state will have to do, will be money we will not be spending in the economy, in fact shrinking the already shrinking economy. We ask that the state become a model instead of continuing to reduce our health care benefit. We ask that if the increased costs do come about, that you consider when the economy does turn around, that you will sunset these costs increases and return us back to the 2009 rate.

Mr. Larson informed that the state had gone back and made change in the other direction before. There will be some kind of impact on school districts local shares because they have contracts that cover employee share. He is getting feedback from legislators about how much this will cost and asked Ms. Rentz if she has access to these numbers for the March 30th meeting. Ms. Visalli stated she has access to the information.

Ms. Visalli reminded everyone that the next SEBC meeting is scheduled for March 30, 2009, at 1:00 p.m. in the Tatnall Building. If there are further questions or information, contact one of the SEBC. Being no other business before the committee, Ms. Visalli asked for a motion to adjourn the meeting. Mr. Larson made the motion and Secretary Pfeiffer seconded the motion. Upon unanimous voice vote the motion carried. The meeting adjourned at 2:30 p.m.

Respectfully submitted,

Mary K. Thuresson
Administrative Specialist
Statewide Benefits Office, OMB